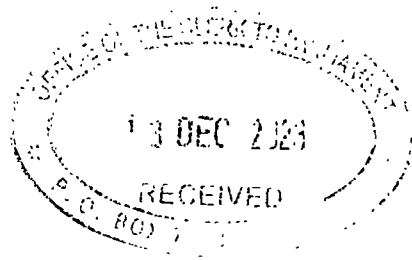




PARLIAMENT OF UGANDA



**REPORT OF THE COMMITTEE ON NATIONAL ECONOMY ON THE
PROPOSAL TO BORROW UP TO UNITED STATES DOLLARS (USD) 295
MILLION FROM THE ISLAMIC DEVELOPMENT BANK AND UNITED
STATES DOLLARS (USD) 30 MILLION FROM THE OPEC FUND FOR
INTERNATIONAL DEVELOPMENT FOR THE UPGRADING OF NATIONAL
ROADS PROJECT IN UGANDA**

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Office of the Clerk to Parliament
December, 2023

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1.0 INTRODUCTION

On the 10th day of October 2023, a proposal by government to borrow up to United States Dollars (USD) 295 Million from The Islamic Development Bank and United States Dollars (USD) 30 Million from The OPEC Fund for International Development for The Upgrading of National Roads Project in Uganda was presented to Parliament and referred to the committee of National Economy for scrutiny.

The Committee has considered the loan proposal in accordance with Article 159 of the Constitution, Section 36 of the Public Finance Management Act (PFMA), 2015 (amended) and Rule 155 of the Rules of Procedure of Parliament.

The Committee now reports.

2.0 METHODOLOGY

The Committee while considering the loan request held meetings with the Ministry of Finance, Planning and Economic Development
Uganda National Roads Authority

The Committee reviewed the following documents

- a) The brief on the proposed loan project
- b) Project Appraisal Document
- c) Project Implementation Plan
- d) Draft financing agreements
- e) Letter by H.E the President clearing the loan
- f) Letter from National Planning Authority confirming that the project is line with the National Development Plan and Sector strategy

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- g) Procurement plan
- h) Feasibility study report
- i) Report on the performance of previous loan financed projects under Works and Transport Sector
- j) Report on Public Debt, Grants and Guarantees
- k) Environmental and Social Impact Assessment report of the project

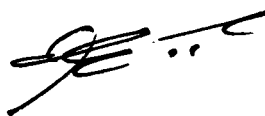
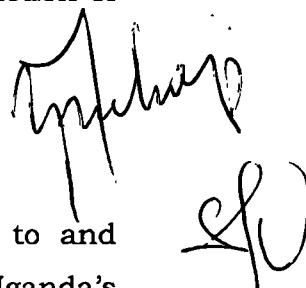
1.1 BACKGROUND



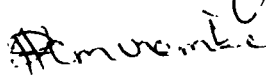
On the 6th November 2020, the Government of Uganda (GoU) requested the Islamic Development Bank (IsDB) to participate in the financing of a number of road projects. Accordingly, three of the road projects: Rehabilitation and Upgrading of urban Roads; Upgrading of Katine - Ocherero Road; and Upgrading of Ishasha - Katunguru Road (88km) were included in Uganda's Annual Work Program.

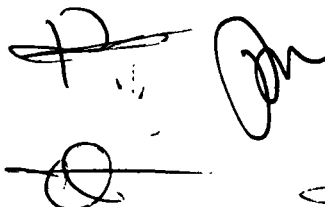
Through a letter dated 14th February 2022, the GoU updated the list of projects to be financed and included the construction of the Masindi Port Bridge. It was agreed to integrate the three roads into the Upgrading of National Roads in Uganda Project to optimize resources for the country and the Bank. Consequently, the proposed project comprises the Upgrading of Katine-Ocherero road (70Km), Upgrading of Kyenjojo - Bwizi - Rwamwanja - Kahunge and Mpara - Bwizi (totaling 105km) roads, and the construction of the Masindi Port Bridge.

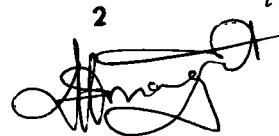
1.2 Justification for the Financing

The third National Development Plan (NPD III) identifies "access to and efficiency of transport infrastructure," as "critical to Uganda's competitiveness and the country's ability to harness its regional and globalization potential." Transport infrastructure is noted as a key





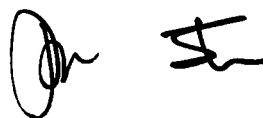
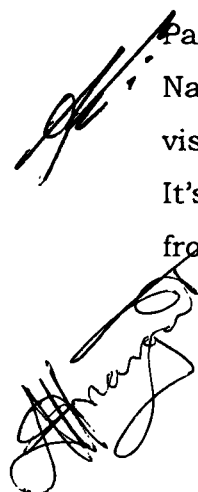

component contributing to the NDP III goal of increased household incomes and quality of life by linking growth opportunities in key development sectors of agriculture, tourism and minerals which facilitates national and international integration, and supports job creation and poverty alleviation.

The Teso and Lango regions in Eastern and North Eastern Uganda are identified as underserved areas by the NDP III which require improved infrastructure to support their socioeconomic development. The NDP III also prioritizes the upgrading of infrastructure around Lake Kyoga to open the remote areas around the lake with an aim of reducing poverty and harnessing their economic potential. Both Katine – Ocherero Road and Masindi Port Bridge are located in the region surrounding Lake Kyoga.

The Masindi Port Bridge, the existing ferry that facilitates crossing the Victoria Nile to connect the Rwenkunyie – Masindi Port section to Kungu – Apac section is old with insufficient capacity to carry the ever-increasing traffic.

Katine-Ocherero Road is currently gravel (unpaved) and does not provide a reliable and efficient all-weather link which reduces the number of people who travel to the project influence area. The traffic levels on the road cause fast deterioration of the unpaved surface resulting in increased costs of maintaining the road in a motorable state.

For the Kihura -Bwizi – Rwamwanja - Kahunge and Mpara - Bwizi roads, they are located in western Uganda which represent 27.2% of crop production in the country. Also, 10 out of the 12 national parks are in the western region. The two proposed routes are adjacent to Kibaale National Park and contribute to the development of tourism in the region. Kibaale National Park is the fifth most popular park in the country with 18,843 visitors in 2018. This accounts for about 6% of the total number of visitors. It's mainly used by in and outbound cargo trucks transporting goods to and, from neighbouring countries such as Rwanda and DRC. More so, the project



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area is host to Rwamwanja Refugee settlement with a population of 73,035 in 12 zones in Kamwenge district and thus used by vehicles delivering food supplies and other material aid to the refugees.

The road is an important connecting route for motorists to different destinations such as Kamwenge, Kyenjojo, Ibanda, Kiruhura and Kazo among other districts. As a result, the road has a high traffic count especially of heavy cargo trucks and is prone to damage resulting into development of potholes and rapid wearing off gravel and earth which is manifestly evident in many sections along its alignment. More important, given its busy nature, safety measures in the existing road alignment design are deficient; a factor largely ascribed to high number of accidents on the road.

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The existing road is a class C gravel road with insufficient pavement structures, inadequate drainage structures, insufficient road safety facilities and no road furniture among others. The road is in fair to good condition characterized by some surface corrugations, inadequate drainage and poor alignment, and total carriageway width that varies between 5-6 m.

The improved road infrastructure is expected to trigger rapid socio-economic development and transformation of communities living within this region. The route will smoothen delivery of aid and support by government and relief agencies to Rwamwanja refugee settlement. Refugees constitute a unique category of communities with challenging and ever-changing needs and livelihoods typically dependent on relief aid. Provision of sustenance by international and national relief agencies is highly facilitated by improved road infrastructure

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1.3 COMPLIANCE WITH PARLIAMENTARY APPROVAL GUIDELINES

Rule 155 provides the process of consideration of Loans and guarantees in Parliament. This rule provides for the requisite documents that must

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accompany any loan request, and the table 1 shows that nine and a quarter (9.25) of sixteen (16) documents were submitted in accordance with rule 155, translating into a performance of 57.8 percent.

Table: 1 Compliance Assessment of submitted documents in line with Rule 155

Rule	Requirement	Target Score	Score	Remark
155(5)	a) Draft Financing Agreement	1	1	Submitted
	b) List of financing options	1	1	Directly sourced
	c) Loan Disbursement and repayment schedule	1	0.5	Loan disbursement schedules not submitted. Repayment schedule submitted for OPEC only.
	d) A letter from NPA	1	0	Not Submitted
	Subtotal rule 155(5)	4	2.5	62.5% of requirement
155(7)	a) Social Economic Impact Assessment Report	1	1	Submitted
	b) Performance report for all projects in sector	1	1	Performance reports as at Dec, 2022 submitted. This needs to be updated
	c) Evidence of Consistency with NDP & sector strategy	1	1	Submitted NPA letter
	d) Evidence of Availability of counterpart funds	1	1	evidence submitted
	e) Project Appraisal Document (PAD)	1	1	PAD Submitted
	f) Procurement plan	1	1	Plan Submitted
	g) Project Implementation Plan	1	1	Submitted within the PAD
	h) Project Management Structure	1	1	Submitted
	i) Resettlement action plan, if applicable	1	1	Submitted
	j) Environmental Impact Assessment report, If applicable	1	1	Submitted
	K) Performance of past loans	1	1	In performance report submitted, although it needs to be updated
	l) any other documents	1	1	Not applicable
	Subtotal rule 155(7)	12	12	100% submitted
	Total	16	14.5	91% submitted

Source: PBO Assessment of submitted documents

1.4 Performance of previous projects

The report on public debt, grants, guarantees and other financial liabilities submitted by the Minister of finance indicates that by the end of December, 2022 the Uganda National Roads Authority was implementing 20 externally financed projects as indicated in Table 2. These projects have committed loan

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amounts worth USD 2.39 billion and by December USD 1.158 billion had been disbursed (48.5%).

Table 2: Loan disbursement by project as at December, 2022

Creditor /Donor	Project Title	Approval date by Parliament	Date of Effectiveness *	LOAN Amount Committed (US\$ m)	Disbursed to date (US\$ m)	% Disbursed
IDA	Albertine Region Sustainable Development Project	23-Jul-15	24-Aug-15	76.17	63.58	83.5%
AfDB	Busega - Mpigi Express highway	21-Dec-16	14-Feb-17	91.00	33.42	36.7%
AfDF				59.86	19.97	33.4%
JAPAN -JICA	Construction of New Bridge Across River Nile at Jinja plus Additional Financing	28-Apr-11	25-Jul-11	129.27	110.64	85.6%
AfDF	Kabale - Lake Bunyonyi/Kisoro - Mgahinga Roads Upgrading Project	30-Jul-20		72.12	1.44	2.0%
JAPAN -JICA	Kampala Flyover Construction and Road Upgrading Project	3-Sep-15	26-Feb-16	181.72	47.63	26.2%
AfDB	Kampala Jinja Expressway Project	2-Jun-20		229.47	0.34	0.1%
BADEA	Masaka - Bukakata	21-May-13	28-Oct-13	12.00	11.33	94.4%
OPEC FUND				15.00	15.00	100.0%
AfDB	Multinational Kapchorwa-Saum-Kitale and Eldoret Bypass Roads Project	28-Nov-17	24-May-18	38.40	24.19	63.0%
AfDF				59.73	22.93	38.4%
IDA	North Eastern Road Corridor Asset Management project	17-Dec-14	1-Jul-15	223.08	49.48	22.2%
EIB	Northern Corridor - Mbarara Bypass		21-Dec-12	71.99	65.01	90.3%
CHINA-EXIM BANK	Road infrastructure for delivery of first oil - Lot 1	27-Nov-19	12-Jun-20	186.06	138.15	74.3%
CHINA-EXIM BANK	Road infrastructure for delivery of first oil - Lot 2	27-Nov-19	12-Jun-20	152.61	125.94	82.5%
CHINA-EXIM BANK	Road infrastructure for delivery of first oil - Lot 3	27-Nov-19	12-Jun-20	117.72	80.19	68.1%
AfDF	Road Sector Support 5 - Mbale-Bubulo-Lwakhakha Road	16-Dec-14	26-Aug-15	42.29	20.16	47.7%

Creditor /Donor	Project Title	Approval date by Parliament	Date of Effectiveness *	LOAN Amount Committed (US\$ m)	Disbursed to date (US\$ m)	% Disbursed
AfDF	Road Sector Support 5 - Rukungiri - Kihhi - Ishasha Road	4-Dec-14	26-Aug-15	56.39	57.57	102.1%
AfDF	Road Sector Support Project-4 (Kyenjojo Hoima-Masindi - Kigumba Road)	6-Nov-13	8-Aug-14	112.40	81.60	72.6%
IDB	Tirinyi - Pallisa - Kumi/Kamonkoli Road	16-Sep-14	6-May-15	120.00	109.27	91.1%
BADEA	Upgrading Luwero Butalangu Road	21-Dec-16	12-Apr-18	11.50	-	0.0%
OPEC FUND				11.50	0.01	0.1%
IDB	Upgrading Muyembe - Nakapiripirit Road	10-Mar-15		110.00	20.25	18.4%
IDB	Upgrading of Rwenkunya Apac Lira Acholibur Road	23-Jan-19		210.00	60.28	28.7%
Total				2,390.27	1,158.38	48.5%

Source: Ministry of Finance, Planning and Economic Development

PROJECT DESCRIPTION

Project Development Objective is to boost the socio-economic development of Uganda by providing better access to social infrastructure, facilitating access to market for farmers and traders, reinforce the regional integration and tourism.

2.1 Project Components

Component 1: Civil Works

The road works relate to the upgrading of Katine - Ocheri (70 km), Kyenjojo (Kihura) - Bwizi - Rwamwanja -Kahunge (68km) and Mpara - Bwizi (37km) roads from gravel roads to paved one, class II, as per Uganda Road Geometry Design Manual 2005 Edition with 7m of pavement and 2x1.5m shoulders. In

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urban areas, shoulders can be extended at 2m to 2.5m. The pavement structure for Katine - Ocherero road comprises a 27.5 cm or 17.5 cm gravel sub-base (for S3 and S4 Subgrade respectively), a 17.5 cm thick granular base course and a 5 cm thick asphalt concrete, while for Kyenjojo (Kihura) - Bwizi - Rwamwanja - Kahunge (68km) and Mpara - Bwizi (37km) roads, the sub-base is about 15 cm, the base course is 17.5 cm thick and the asphalt concrete about 5 cm thick. The difference in the pavement structures between the two sections of roads is mainly driven by the difference of subgrade and the expected traffic on each road.

Regarding the Masindi Port Bridge, works consist of the construction of a Tied Arch Bridge with a span of 510m and its access roads of about 10.128 km. The carriageway width is about 7m (2 x 3.5m Lanes) and two shoulders of 1.5m. The bridge will be constituted of six spans of respectively 50m, 70m, 90m, 140m, 90m, and 70m, supported by five piles and two abutments.

The Masindi Port Bridge has been designed for 100 years of design life while roads are designed for a 20-year design life. The road works include: i) site installations; ii) preparatory works; iii) general earthworks; iv) construction of the roadway and pavement layers; v) drainage network; vi) execution of signalling and safety equipment works; vii) public lighting; viii) structures, and viii) implementation of environmental and social management plans (ESMP).

The ancillary works consist of works that will have multiplier effect on the project's impact and its sustainability. Some ancillary works which were identified as part of environmental studies of the project that considered concerns and expectations of populations. These include (i) the Construction of one (1) fixed weighbridge and acquisition of two (2) mobile ones, (ii) Supply of traffic and condition monitoring equipment, (iii) Construction of 26 km of town roads and access roads in Kaberamaido, Kalaki, Mpara, Biguli, Bwizi, Kisojo, Bisozi, Kahunge, Katalyeba and Rwamwanja towns, and (iv) construction of social amenities: school fences, classrooms, sanitation blocs, boreholes, construction and rehabilitation of market places. The selected

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town roads open access to marketplaces, trading centres, schools and many refugee centres and refugee settlement areas. The supply of traffic and condition monitoring equipment intends to help UNRA to improve the collection of data on the road network and undertake preventive maintenance. The Monitoring equipment will assist UNRA with the collection of Network Level Automated classified traffic and Weigh in motion axle load data to enable it to update the Traffic Information System (TIS) which is part of the engine for the Road Asset Management System (RAMS) that supports decision-making for preparation of Annual Maintenance, Rehabilitation and Road investment plans.


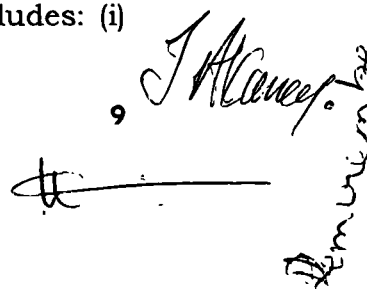
Component 2: Consultancy services

Consultancy firms will be recruited for the review of the detailed designs and to undertake the supervision of the physical implementation of the civil works (one for each section). The consultants will ensure high standards of construction, compliance with established road safety standards, specifications with special emphasis on road safety, drainage, climate risks and environmental mitigation measures. The supervision will include all the tasks needed to ensure that all technical specifications are met during the construction phase and close monitoring of the contractor for any deviation from the specifications consigned in the contract.

For ease of implementation, three consultant firms will be recruited for the supervision of the respective lots: (i) Upgrading of Katine Ocherero Road, including the construction of 6km of town access roads, (ii) Construction of Masindi port Bridge, (iii) Upgrading of Kihura- Bwizi-Rwamwanja - Kahunge (68km) and Mpara-Bwizi (37km), including construction of 20 km of town roads.

Component 3: Institutional support to Project Management Unit (PMU)

This component comprises of the operational and logistics support to the PMU for project implementation and monitoring activities. This includes: (i)


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J. H. Mwanje
Director of PMU

allowances for staff, (ii) office furniture and IT equipment, (iii) acquisition and maintenance of vehicles, and (iv) office operational cost.

A dedicated project management unit (PMU) will be set up within UNRA to handle all project implementation responsibilities. The PMU shall comprise: (i) a Coordinator/Head of the PMU, (ii) three contract managers, (iii) three project Engineers, (iv) a Senior Procurement Officer, and (v) a Senior Accountant, etc. UNRA will be responsible for the selection of the PMU staff.

Component 4: Land acquisition

The entire roads are in existing alignments and hence, land acquisition will consist of compensations for Project Affected People (PAPs), mainly located in the district of Soroti and Kaberamaido in the Eastern, and the districts of Kamwenge, Kyegegwa and Kyenjojo in the south, for the purpose of enlargement of the existing road platform and to achieve proper hydraulic drainage.

The Environmental and Social Impact Assessments clearly identify all affected people, compensation schemes and resettlement plans are ready. The Executing Agency is responsible for the full implementation of the approved Resettlement Action Plan (RAP), as per Government of Uganda's laws and regulations.

The number of PAPs is estimated at around 7518 persons located mainly on Katine-Ochero section (around 1700 persons) and Kihura-Kahunge/Mpara-Bwizi sections (around 5797 persons), while for Masindi Port Bridge it's only 21 persons that are affected.

The PAPs are generally SMEs (commercial buildings mainly) and houses that are situated along the right of way. This component will be funded entirely by the Government of Uganda. Provisions will be made in the effectiveness conditions to ensure timely processing of the land acquisition to prevent any related delays in the implementation.

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Component 5: Road Safety


This component consists of a consultancy service for the black spot identification and study for around 2500 km. It intends to identify the most critical black spots where many crashes are noted in the road network and propose mitigation measures. It will also include the provision of road safety equipment including luminosity testers and skid resistance testing machines.

Furthermore, in relation with Civil Society Organizations, the Consultant will undertake some sensitization activities on different themes related to road safety, to the benefit of Populations living around project influence zones. This component will be implemented in relation with the Directorate of Transport which is responsible for implementing the road safety strategy at the national level.

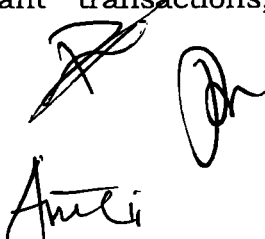
Component 6: Financial Audit

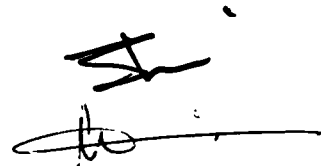
This component is to provide for the financial audit of the project financial expenditures, including the Special Account held with Executing Agency, and the bank statements. The Office of the Auditor General of Uganda (OAGU), that is mandated by the constitution of the Republic of Uganda to undertake financial audit of public funds, will be in charge of auditing this project either through its own staff/resources or by hiring external independent auditing firms selected in accordance with the Selection Method specified in the Procurement section of this document.

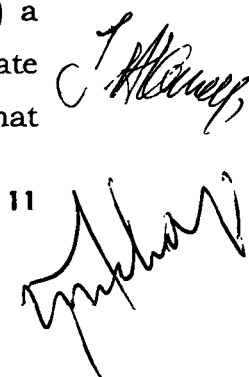
The audit will include: (a) assessment of the adequacy of accounting and internal control systems to monitor expenditures and other financial transactions and ensure safe custody of the project-financed assets, (b) a determination as to whether the beneficiary has maintained adequate documentation on all relevant transactions, (c) 25 verification that


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3.2 Cost by Project Component

Table 2: Project Cost by Component

No	Components	IsDB		OFID	GoU	Total
		Inst. Sale. Step 1 (US\$ millions)	Inst. Sale. Step 2 (US\$ millions)	Amnt (US\$ millions)	Amnt (US\$ millions)	Amnt (US\$ millions)
1	Civil Works	-	251.30	26.00	-	277.30
1.1	Road works	-	239.00	26.00	-	265.00
1.1.1	Lot1: Upgrading of Katine Ocheru	-	54.00	26.00	-	80.00
1.1.2	Lot 2: Construction of Masindi port Bridge	-	89.00	-	-	89.00
1.1.3	Lot 3: Upgrading of Kyenjojo (Kihura)-Bwizi- Rwamwanja-Kahunge (68km) and Mpara-Bwizi (37km)	-	96.00	-	-	96.00
1.2	Ancillary works	-	12.30	-	-	12.30
2	Consultancy Services for Supervision	10.00	-	1.50	-	11.50
2.1	Lot1: Upgrading of Katine Ocheru	1.50	-	1.50	-	3.00
2.2	Lot 2: Construction of Masindi port Bridge	3.50	-	-	-	3.50
2.3	Lot 3: Upgrading of Kyenjojo (Kihura)-Bwizi- Rwamwanja-Kahunge (68km)/Mpara-Bwizi (37km)	5.00	-	-	-	5.00
3	Institutional support for PMU	0.70	-	-	-	0.70
4	Land acquisition	-	-	-	22.00	22.00
5	Road Safety (Blackspot Study)	1.20	-	-	-	1.20
6	Financial Audit	0.10	-	-	-	0.10
7	Contingency Emergency Response Component (CERC)	-	-	-	-	-
	Total Base Cost	12.00	251.30	27.50	22.00	312.80
	Contingency	1.00	30.70	2.50	-	34.20
	Grand Total	13.00	282.00	30.00	22.00	347.00

Source: Draft financing agreement and the PAD

2.0 LOAN TERMS AND CONDITIONS

4.1 Islamic Development Bank financing terms

Item	Terms
Loan Amount	USD 295 million
Maturity Period	20 years
Grace period	5 years
Repayment period	15 years
Reference rate	Fixed reference for 10-year USD SOFR mid swap
Risk premium	0.7%
Contractual spread	0.6% fixed for the entire duration of financing
Funding spread	1%

Source: Draft instalment sale financing framework agreement

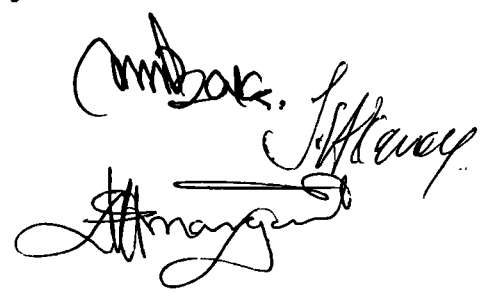
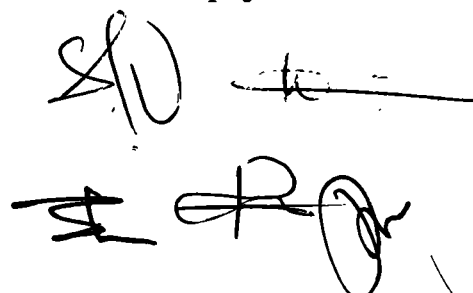
The total loan amount of USD 295 million is for a period of twenty years with a grace period of five years. The loan has an effective mark-up rate of 3.21percent (3.21%) and a profit/mark-up of 6.42 percent (6.42%) taking into consideration the Risk premium, Contractual and Funding Spread.

4.2 OPEC fund for International Development financing terms

Item	Terms
Loan Amount	USD 30 million
Maturity Period	20 years
Grace period	5 years
Repayment period	15 years
Interest rate	2% per annum
Commitment fee	0.25% on unwithdrawn balance of the loan
Front end fee	0.25% (one off payment)

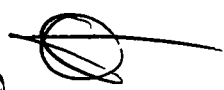
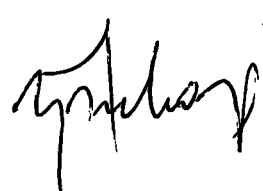
Source: OPEC draft loan agreement

The total loan amount of USD 30 million is for a period of twenty years with a grace period of five years, with an interest rate of 2% per annum. The loan attracts commitment fees of 0.25% per annum on unwithdrawn amounts beginning to accrue 60 days from the date of signature and payable within ~~90~~ 90 days from the date of effectiveness. The front-end fee of zero-point two five percent (0.25%) of the loan amount is payable within 90 days from the date of effectiveness.



Hamid Al-Rubai

Amir



4.3 Loan Conditions

1. The submission of a legal opinion/certificate confirming that the terms and conditions of the Agreements constitute enforceable and binding obligations upon the Recipient as set out in the form of the agreements.
2. Letter of confirmation from the Executing Agency confirming that a minimum of 1 of the 3 Lots is cleared, acquired and free of encumbrance.
3. Documentary evidence from the relevant authority regarding the compensation scheme and the action plan entailing different stages of the land acquisition process, timelines, and budget.
4. Disbursements in accordance with the provisions of the Disbursement Letter
5. Effectiveness of the Framework Agreement and this Agency Agreement

4.4 Concessionality of the loans

Table 1: Level of Concessionality of the loan from Islamic Development Bank

Item	Value
Nominal Value of the Loan (NV)	USD 295 million (UGX 1.121 trillion)
Present Value of the loan (PV)	USD 264.07 million (UGX 1.003 trillion)
Total Debt Service of the loan	USD 463.86 million
Grant Element (%)	10.5%
Discount Rate	5%

Source: IsDB Draft Loan Agreement and PBO Computations.

Note: Exchange rate used 1USD = 3,800 UGX

The present discounted value of the loan of USD 264.07 million (UGX 1.003 trillion) is lower than the nominal value of the loan USD 295 million (UGX 1.121 billion). This implies that the total future payment of the loan is cheaper than the proposed amount to be borrowed in present terms. The total future payment of the loan will amount to USD 463.86 million after the loan period of 20 years.

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The loan is NOT concessional since its grant element (10.5%) is lower than the concessional limit of 35%.

Table 2: Level of Concessionality of the loan from OPEC Fund

Item	Value
Nominal Value of the Loan (NV)	USD 30 million (UGX 114 billion)
Present Value of the loan (PV)	USD 22.16 million (UGX 84.206 billion)
Total Debt Service of the loan	USD 37.09 million
Grant Element (%)	27.4%
Discount Rate	5%

Source: OPEC Loan agreement and PBO Computations.

Note: Exchange rate used is 1USD = 3,800 UGX

The present discounted value of the loan of USD 22.16 million (UGX 84.206 billion) is lower than the nominal value of the loan USD 30 million (UGX 114 billion). This implies that the total future payment of the loan is cheaper than the proposed amount to be borrowed in present terms. The total future payment of the loan will amount to USD 37.09 million after the loan period of 20 years.

The loan is Semi concessional since its grant element (26.1%) is lower than the concessional limit of 35%.

Table 3: Joint Concessionality of the total borrowing

Item	Value
Nominal Value of total borrowing	USD 325 million
PV of total borrowing	USD 286.23 million
Grant Element (%)	11.9%

The total borrowing is NOT concessional with a joint grant element of 11.9 percent. Uganda's Debt Management strategy guides that Government of Uganda (GoU) shall borrow for social services development under highly concessional terms with a minimum grant element of 35%.

Consideration for non-concessional borrowing is ideal be for financing of projects that will provide an economic rate of return greater than the interest rate charged. The Economic rate of return of these projects is greater than the proposed interest rates for this financing, in order to realise the intended

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objectives of these projects, it is important that they are effectively implemented.

3.0 ECONOMIC RETURNS OF THE PROJECT

The projects present positive Net Present Value averaging USD 41.65 million with Economic Rates of Return for Upgrading of Katine-Ochero road, Construction of Masindi Port Bridge, and Upgrading of Kihura-Bwizi-Rwamwanja-Kahunge are 17.4 %, 15.7% and 20.8% respectively. Since the ERR is higher than Uganda's Economic Opportunity Cost of Capital (EOCK) of 11%, it's an indication that the project is economically viable and impactful to the whole country with both indirect and direct benefits.

4.0 Budgetary Implication

The three projects form part of the national budget for FY 2023/24 and are provided for as follows;

1. **UGX 37.74 billion** appropriated for Upgrading of Kyenjojo (Kihura)-Bwizi-Rwamwanja-Kahunge (168km/Mpara-Bwizi (37km);
2. **UGX 0.05 billion** appropriated for the Construction of Masindi Port Bridge;
3. **UGX 9.47 billion** appropriated for the Proposed Upgrading of Katine Ochero (72.9km)

Table 4: Approved budget for the proposed projects in FY 2023/24

Project Code	Project Name	Activity	GoU	Ext. Fin
1785	Upgrading of Kyenjojo (Kihura)-Bwizi-Rwamwanja-Kahunge (168km/Mpara-Bwizi (37km)	Monitoring and Supervision of capital work	0.0499	4.0
1785	Upgrading of Kyenjojo (Kihura)-Bwizi-Rwamwanja-Kahunge (168km/Mpara-Bwizi (37km)	Roads and Bridges - Acquisition	-	33.7

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Project Code	Project Name	Activity	GoU	Ext. Fin
1795	Construction of Masindi Port Bridge	Monitoring and Supervision of capital work	0.05	-
1796	Proposed Upgrading of Katine Ocheri (72.9km)	Monitoring and Supervision of capital work	0.05	2.0
1796	Proposed Upgrading of Katine Ocheri (72.9km)	Roads and Bridges - Acquisition	-	7.4

Source: Approved Budget Estimates FY 2023/24 and PBO compilations

Once this loan request is approved by Parliament, the Vote's budget estimates will be adjusted upwards to reflect the forecasted disbursements from the financiers in line with the loan disbursement schedule.

5.0 IMPACT ON DEBT SUSTAINABILITY

As at June 2023, the total public debt stock stood at USD 23.66 billion (UGX 86,779.9 billion) increasing from 20.97 billion (UGX 78.78 billion) as at end June 2022. Of the total public debt stock as at June 2023, external debt constituted 60.2% (14.24 billion /UGX 52, 206.1 billion) while domestic debt constituted 39.8% (USD 9.4 billion/UGX 34,573.8 billion). Uganda's debt remains sustainable with the nominal value of public debt to GDP of 47.1% as at June 2023 compared to 48.4% as at June 2022.

The approval of this loan will increase the external debt exposure for public and publicly guaranteed debt by USD 325 million and the share of GDP by 0.6 percent to 47.7 percent. Even though public debt will remain within the sustainable levels, Uganda is rated at moderate risk of debt distress. If Uganda experiences an adverse shock, leading to a decline in GDP growth, some of the debt risk indicators will exceed the Charter of Fiscal Responsibility thresholds rendering our debt unsustainable.

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6.0

OBSERVATIONS AND RECOMMENDATIONS

8.1 The status of National Roads

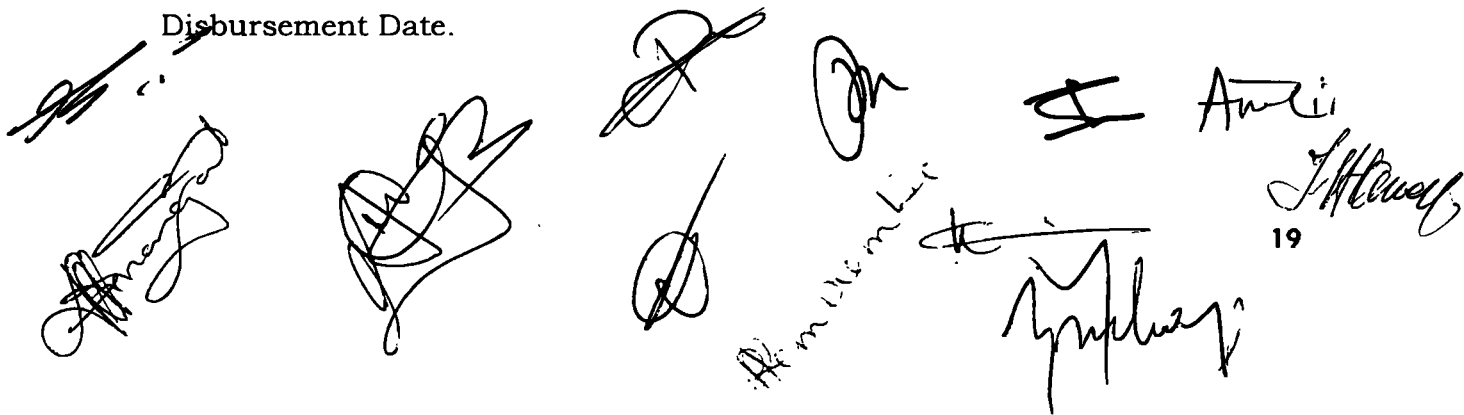
The Committee was informed that the national road network currently comprises of 21,200 kilometres of roads. Many of the road sections in flat, low lying and swampy areas have been affected by the current rains, leading to culvert wash-outs, bridges overtopping of roads by floods, very slippery sections, slope failures in cut and embankment road sections among others. This has greatly affected mobility and accessibility in many parts of the country.

According to the Ministry of Works and Transport the funding requirements for the proposed interventions in the country amounts to UGX 580.09 billion. This requirement is categorised in the following entities as follows; National Road Network (UNRA) is UGX 64 Billion, DUCAR (DLGs and UCs) UGX 429.82 billion, MoWT (emergency response items, for culverts, Gabions, Bailey Bridges) at UGX 50.70 billion and KCCA road network (KCCA) at UGX 35.03 billion.

The Committee recommends that Ministry of Finance, Planning and Economic Development should as a matter of urgency find money to cater for emergency repairs of the roads in the country.

8.2 Grace period of the financing

The Committee observed that the Islamic Development Bank draft instalment sale financing framework agreement defines the payment period as being the period of 15 years starting from the end of the Gestation Period, provided that the period from the First Disbursement Date up to the last Payment Date shall not exceed 20 years. The gestation period provided for under Article 2 (2.4) of the framework agreement Five (5) years from the First Disbursement Date.



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The Committee noted that the brief to Parliament by the Minister of Finance, Planning and Economic Development indicated a grace period of 4 years, contrary to the provision in the financing agreement.

The Committee recommends that the grace period be maintained as 5 years similar to the gestation period provided for under Article 2 of the Draft instalment sale financing framework agreement. This should be maintained in the final financing agreement.

8.2 Risk premium of the financing

The Committee observed that the draft instalment sale financing framework agreement provides for a risk premium as a compensation for market risk assumed by the IsDB in refinancing, prevailing at the time of Disbursement. Such prevailing spread would be fixed for the relevant Disbursement, to be calculated for the remaining financing tenor. The Committee also noted that The Risk Premium was subject to semi-annual update by the Bank to reflect changes in the market condition.

The Committee observed that whereas the Minister of Finance's brief to Parliament indicated a risk premium being 0.5 percent, the draft instalment sale financing framework agreement provided for the prevailing risk premium to be 0.7 percent.

The Committee notes that a higher risk premium reduces the grant element of the financing from the Islamic Development Bank and also increases the debt servicing costs of this facility. Additionally, updates made to the risk premium complicate the computation of the debt servicing costs for a particular period including annual projections.

The Committee recommends that the Minister of Finance renegotiates the risk premium to a lower rate and also have it fixed for the entire debt servicing period. Since the bank will incorporate the secured overnight financing rate (SOFR) in computing the payment instalments,

the SOFR can serve as a parameter to reflect changes in the market condition as its variation is caused by the same.

8.3 Upgrading of Kyenjojo (Kihura) - Bwizi - Rwamwanja-Kahunge (68km) and Mpara-Bwizi (37km)

The Committee noted that the Project Appraisal Document and the Minister's brief indicate that the selected roads for upgrading under this financing proposal have prioritized for implementation during the Third National Development Plan (NDP III). The Committee further noted that upgrading of Kyenjojo (Kihura) - Bwizi - Rwamwanja-Kahunge (68km) and Mpara-Bwizi (37km) were not part of the NDP III projects under the Integrated Transport Infrastructure Services Programme.

The Committee was informed that the road was actually part of the NDP III projects but was termed "Rwimi – Dura – Kamwenge road.

The Committee therefore recommends that the project name contained in the NDP 111 be maintained for consistency with the NDP III.

The Committee also recommends going that forward, all MDAs should adhere to the provisions of the NDP111 for avoid distortions.

8.4 Land acquisition and compensation of Project Affected Persons

In line with the project costing and provisions in the financing agreement, the Committee notes that Government of Uganda is expected contribute USD 22 million towards land acquisition. In addition, GoU is expected to cater for all VAT related costs that will arise during project implementation.

The Committee observed that a number of projects being implemented by Uganda National Roads Authority (UNRA) have experienced implementation delays because inadequate resources are allocated to land acquisition and compensation of Project Affected Persons. Acquisition of land and right of

way in the project sites is vital before on boarding of contractors by UNRA to ensure timely execution and completion of projects

The Committee recommends that MDAs should always undertake project designs prior to sourcing for money in order to minimise project delays and accrual of sufficient resources be allotted to land acquisition and compensation of Project Affected Persons for this project. Additionally, adequate funds be provided to cater for land acquisition needs for all ongoing roads to ensure them be fast tracked and achieve their intended objectives.

8.5 Design and scope changes

The Committee observed that some externally financed projects such as Busega – Mpigi Expressway have had to undergo design changes and re-scoping of works. This in effect affects progress of works due to delayed finalisation of the designs and have most times resulted into increased variation costs.

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The Committee noted that the designs changes are occasioned by the need to improve road designs, minimize land acquisition costs, incorporate environmental and social safeguards, among others so as to optimise project outcomes.

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The Committee was informed that UNRA has built and continues to build capacity in network planning, designs and engineering and has since undertaken numerous designs in-house.

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The Committee recommends that project design stage be accorded thorough scrutiny and this process be concluded before any funding is sourced. This will minimize project delays, accrual of commitment fees, needless and unexpected cost overruns.

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7.0 CONCLUSION

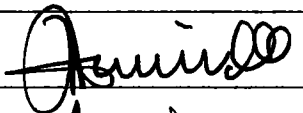

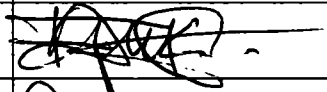
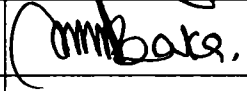
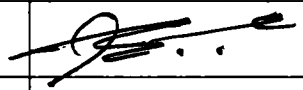

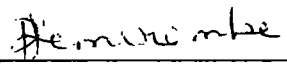
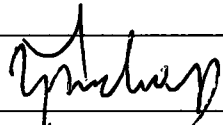
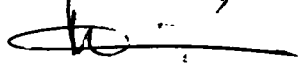
The Committee recommends that the proposal by government to borrow up to United States Dollars (USD) 295 Million from The Islamic Development Bank and United States Dollars (USD) 30 Million from The OPEC Fund for International Development for The Upgrading of National Roads Project in Uganda be approved, subject to the recommendations herein.

I beg to report.

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COMMITTEE ON NATIONAL ECONOMY

REPORT OF THE COMMITTEE ON NATIONAL ECONOMY ON THE PROPOSAL TO BORROW UP TO UNITED STATES DOLLARS (USD) 295 MILLION FROM THE ISLAMIC DEVELOPMENT BANK AND UNITED STATES DOLLARS (USD) 30 MILLION FROM THE OPEC FUND FOR INTERNATIONAL DEVELOPMENT FOR THE UPGRADING OF NATIONAL ROADS PROJECT IN UGANDA

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5.	Hon. Andrew Ojok Oulanya	Omoro	
6.	Hon. Baka Stephen Mugabi	Bukooli County North	
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8.	Hon. Natukunda Midius	DWR Rukungiri	
9.	Hon. Byarugaba Alex Bakunda	Isingiro County South	
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24.	Hon. Kwizera Paul	Kisoro Municipality	
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40.	Hon. Saazi Godfrey	Gomba East County	
41.	Hon. Bwanika Abed	Kimaanya-Kabonera Division	<i>A. Bwanika</i>

42.	Hon. Gen. James Mugira	UPDF	
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